

GDP and the Economy

Preliminary Estimates for the First Quarter of 2006

REAL gross domestic product (GDP) growth accelerated sharply in the first quarter of 2006, and inflation moderated, according to the “preliminary” estimates of the national income and product accounts (NIPAs) released by the Bureau of Economic Analysis.¹ Real GDP increased 5.3 percent, an upward revision of 0.5 percentage point. The growth rate was the fastest since the third quarter of 2003 (chart 1 and table 1).²

- The pickup in real GDP growth primarily reflected a sharp acceleration in consumer spending, an acceleration in exports, an upturn in Federal Government spending, and an acceleration in business investment in equipment and software. A downturn in inventory investment and an acceleration in imports restrained growth somewhat.³
- Inflation, as measured by the increase in the prices of goods and services purchased by U.S. residents, increased 2.8 percent after increasing 3.7 percent in the fourth quarter. The deceleration reflected the quarterly pattern of energy prices. Excluding food and energy prices, the inflation rate was 3.2 percent, the same rate as in the fourth quarter.
- Real disposable personal income (DPI) rose 2.1 percent in the first quarter, 1.1 percentage points less than in the advance estimate; real DPI had risen 5.1 percent in the fourth quarter (revised).
- The personal saving rate—personal saving as a percentage of current-dollar DPI—fell to -1.3 percent in the first quarter from -0.5 percent in the fourth quarter (revised).

1. Three sequential GDP estimates for each quarter are prepared—advance, preliminary, and final estimates. Each incorporates increasingly comprehensive and improved source data. More information can be found on BEA’s Web site at <www.bea.gov/bea/about/infoqual.htm> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates at seasonally adjusted annual rates, which show the value that would be registered if the rate of activity were maintained for a full year. The annual rates are determined by multiplying the estimated rate of activity by four. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized.

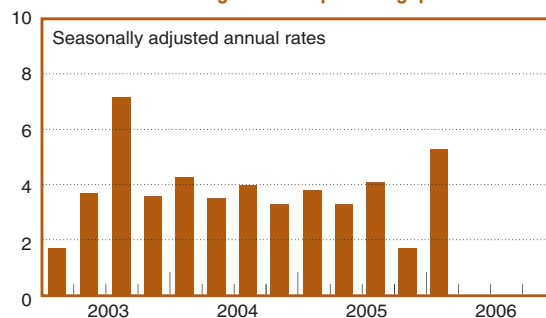
2. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

3. In this article, “consumer spending” is shorthand for “personal consumption expenditures,” “Federal Government spending” is shorthand for “Federal Government consumption expenditures and gross investment,” and “inventory investment” is shorthand for the NIPA series “change in private inventories.”

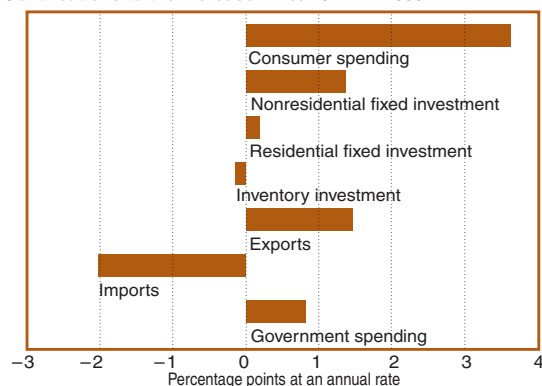
Christopher Swann prepared this article.

Chart 1. GDP, Prices, Disposable Personal Income (DPI)

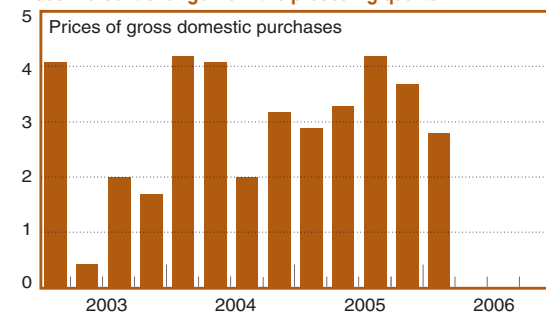
Real GDP: Percent change from the preceding quarter



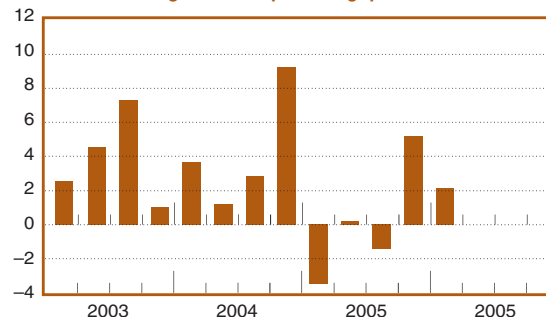
Contributions to the increase in real GDP in 2006:I



Prices: Percent change from the preceding quarter



DPI: Percent change from the preceding quarter



U.S. Bureau of Economic Analysis

Real GDP Overview

Table 1. Real Gross Domestic Product (GDP) and Components

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2005			2006	2005			2006	
	II	III	IV	I	II	III	IV	I	
Gross domestic product	3.3	4.1	1.7	5.3	3.3	4.1	1.7	5.3	100.0
Personal consumption expenditures	3.4	4.1	0.9	5.2	2.35	2.85	0.62	3.63	69.7
Durable goods.....	7.9	9.3	-16.6	20.5	0.64	0.76	-1.47	1.51	8.0
Nondurable goods.....	3.6	3.5	5.0	5.7	0.74	0.73	1.02	1.18	20.6
Services.....	2.3	3.3	2.6	2.2	0.97	1.36	1.08	0.94	41.0
Gross private domestic investment	-3.7	5.3	16.1	8.3	-0.63	0.87	2.54	1.41	17.4
Fixed investment.....	9.5	8.0	3.9	9.3	1.51	1.31	0.65	1.56	17.2
Nonresidential.....	8.8	8.5	4.5	13.1	0.90	0.88	0.48	1.37	11.0
Structures.....	2.7	2.2	3.1	11.3	0.07	0.06	0.09	0.31	2.9
Equipment and software.....	10.9	10.6	5.0	13.8	0.83	0.82	0.39	1.05	8.1
Residential.....	10.8	7.3	2.8	3.1	0.62	0.43	0.17	0.19	6.2
Change in private inventories.....					-2.14	-0.43	1.89	-0.14	0.3
Net exports of goods and services					1.11	-0.12	-1.36	-0.55	-6.1
Exports.....	10.7	2.5	5.1	14.7	1.07	0.26	0.52	1.47	10.7
Goods.....	16.0	3.2	8.0	20.8	1.08	0.23	0.56	1.42	7.6
Services.....	-0.4	1.0	-1.4	1.5	-0.01	0.03	-0.05	0.05	3.1
Imports.....	-0.3	2.4	12.1	12.8	0.04	-0.38	-1.88	-2.02	16.8
Goods.....	-1.1	3.5	13.5	13.9	0.15	-0.46	-1.76	-1.85	14.2
Services.....	4.4	-3.2	4.8	6.9	-0.11	0.09	-0.12	-0.17	2.6
Government consumption expenditures and gross investment	2.5	2.9	-0.8	4.3	0.47	0.54	-0.15	0.82	19.0
Federal.....	2.4	7.4	-2.6	10.5	0.17	0.52	-0.18	0.71	7.1
National defense.....	3.7	10.0	-8.9	9.6	0.17	0.46	-0.44	0.43	4.7
Nondefense.....	-0.2	2.4	11.7	12.2	-0.01	0.06	0.26	0.28	2.4
State and local.....	2.6	0.2	0.2	0.8	0.31	0.03	0.03	0.10	11.9

NOTE. Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

Consumer spending growth accelerated to 5.2 percent from 0.9 percent. It contributed 3.63 percentage points to real GDP growth, compared with 0.62 percentage point. The surge reflected an upturn in motor vehicles and parts, particularly in spending for trucks and recreational vehicles and for new cars.

Nonresidential fixed investment increased 13.1 percent and contributed 1.37 percentage points to real GDP growth, following a 4.5-percent increase and 0.48-percentage-point contribution. The acceleration was driven by an acceleration in equipment and software, as transportation equipment and information processing equipment and software accelerated.

Inventory investment turned down, subtracting 0.14 percentage point from real GDP growth, as inventory investment by retail automobile dealers decreased.

Exports increased 14.7 percent and contributed 1.47 percentage points to real GDP growth after increasing 5.1 percent and contributing 0.52 percentage point. Nondurable industrial supplies and materials and "other" exports turned up. Foods, feeds, and beverages and nonautomotive consumer goods accelerated. But "other" capital goods and "automotive vehicles, engines, and parts" decelerated. Services exports turned up.

Real import growth accelerated somewhat, to 12.8 percent from 12.1 percent.

Federal Government spending turned up, increasing 10.5 percent after decreasing 2.6 percent, as national defense spending turned up.

Table 2. Real Gross Domestic Product (GDP) by Type of Product

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2005			2006	2005			2006	
	II	III	IV	I	II	III	IV	I	
Gross domestic product	3.3	4.1	1.7	5.3	3.3	4.1	1.7	5.3	100.0
Final sales of domestic product.....	5.6	4.6	-0.2	5.5	5.45	4.58	-0.24	5.45	99.7
Change in private inventories.....					-2.14	-0.43	1.89	-0.14	0.3
Goods.....	5.0	5.3	2.3	11.0	1.58	1.70	0.73	3.39	31.7
Services.....	1.5	3.6	1.1	2.7	0.88	2.09	0.65	1.56	57.3
Structures.....	8.4	3.3	2.6	3.3	0.85	0.35	0.28	0.36	11.1
Addenda:									
Motor vehicle output.....	-0.3	17.6	-17.2	-3.5	-0.01	0.56	-0.64	-0.11	3.2
GDP excluding motor vehicle output.....	3.4	3.7	2.4	5.6	3.32	3.58	2.29	5.42	96.8
Final sales of computers.....	45.4	20.3	45.9	5.6	0.32	0.16	0.33	0.05	0.8
GDP excluding final sales of computers.....	3.0	4.0	1.3	5.3	2.98	3.98	1.32	5.26	99.2

NOTE. Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

Real final sales of domestic product—real GDP less inventory investment—increased 5.5 percent, after decreasing 0.2 percent.

A 3.5-percent decrease in motor vehicle output subtracted 0.11 percentage point from real GDP growth; in the fourth quarter, a 17.2-percent decrease subtracted 0.64 percentage point from growth.

Final sales of computers decelerated, increasing 5.6 percent after increasing 45.9 percent. The contribution to GDP growth was 0.05 percentage point, compared with 0.3 percentage point.

Consumer Spending

Table 3. Real Personal Consumption Expenditures (PCE)

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2005			2006	2005			2006	2006
	II	III	IV	I	II	III	IV	I	I
Personal consumption expenditures	3.4	4.1	0.9	5.2	3.4	4.1	0.9	5.2	100.0
Durable goods	7.9	9.3	-16.6	20.5	0.92	1.09	-2.10	2.18	11.5
Motor vehicles and parts	7.5	12.7	-42.6	19.4	0.39	0.64	-2.74	0.85	4.8
Furniture and household equipment	5.8	12.9	11.8	24.0	0.25	0.52	0.48	0.96	4.4
Other ¹	12.9	-3.4	7.2	16.3	0.29	-0.08	0.16	0.37	2.4
Nondurable goods	3.6	3.5	5.0	5.7	1.05	1.04	1.45	1.69	29.6
Food	4.3	6.3	5.3	6.5	0.60	0.87	0.72	0.91	14.1
Clothing and shoes	7.3	3.0	10.5	8.0	0.28	0.12	0.39	0.31	3.9
Gasoline, fuel oil, and other energy goods	-4.6	-4.3	1.0	-0.7	-0.15	-0.16	0.04	-0.03	3.6
Other ²	4.2	2.7	3.9	6.3	0.33	0.21	0.30	0.50	7.9
Services	2.3	3.3	2.6	2.2	1.39	1.94	1.54	1.35	58.9
Housing	2.1	1.9	1.6	1.9	0.32	0.28	0.23	0.28	14.5
Household operation	-0.5	4.6	0.1	-11.7	-0.03	0.25	0.00	-0.69	5.5
Electricity and gas	-5.1	6.2	1.5	-24.9	-0.12	0.14	0.04	-0.69	2.3
Other household operation	2.8	3.4	-1.0	0.1	0.09	0.11	-0.03	0.00	3.1
Transportation	2.3	1.8	4.3	5.3	0.08	0.07	0.16	0.19	3.7
Medical care	4.2	5.5	4.9	5.0	0.72	0.94	0.83	0.86	17.4
Recreation	0.8	0.7	0.6	3.5	0.03	0.03	0.03	0.14	4.0
Other ³	1.9	2.7	2.1	4.1	0.26	0.37	0.29	0.57	13.8

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

Related Indicators

Real disposable income (DPI) increased 2.1 percent, compared with 5.1 percent. In 2005, the annual growth rate of real DPI decelerated to 1.3 percent from 3.4 percent in 2004.

Robust annual consumer spending in the face of a slowdown in real DPI reflects a number of factors including demographic shifts, increases in wealth, and growth in consumer credit.

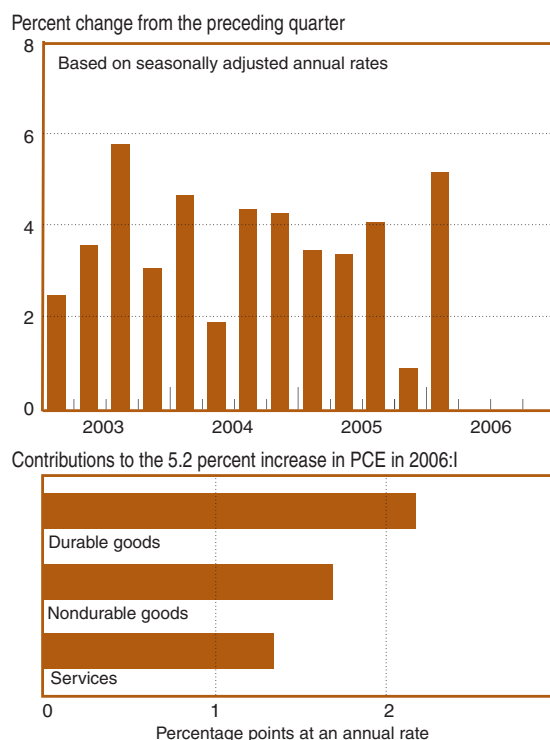
For example, increases in mortgage debt as a percentage of DPI and more cash-out refinancing of residential property, detailed in the Federal Reserve Board's flow of funds accounts, suggest that consumers are able to spend from credit sources beyond DPI. Increases in capital gains, which are not included as income in the NIPAs, provide another source of funds for consumer spending.

Compare personal income and saving measures in the NIPAs and in the Federal Reserve Board's flow of funds account at www.bea.gov/bea/dn/nipaweb/Nipa-Frb.asp.

Spending for durable goods increased and added 2.18 percentage points to PCE growth. The upturn mainly reflected a turnaround in spending on motor vehicles and parts, which increased 19.4 percent after a decline of 42.6 percent. Upturns in trucks and recreational vehicles and in new cars more than offset a decline in used cars. Spending for furniture and household equipment and for "other" durable goods accelerated sharply.

The increase in spending for nondurable goods contributed 1.69 percentage points to PCE growth (chart 2). Accelerations in "other" nondurable goods and in food were partly offset by a downturn in gasoline, fuel oil, and other energy goods.

Spending for consumer services decelerated somewhat, increasing 2.2 percent and contributing 1.35 percentage points to PCE growth (chart 2). The deceleration mainly reflected a sharp downturn in spending for electricity and gas. Accelerations in "other" services—notably brokerage and investment counseling services—and in recreation partly offset the deceleration.

Chart 2. Real Personal Consumption Expenditures


U.S. Bureau of Economic Analysis

Private Fixed Investment

Table 4. Real Private Fixed Investment (PFI)

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)			Contribution to percent change in real PFI (percentage points)			Share of current-dollar PFI (percent)		
	2005			2006			2006		
	II	III	IV	I	II	III	IV	I	I
Private fixed investment	9.5	8.0	3.9	9.3	9.5	8.0	3.9	9.3	100.0
Nonresidential	8.8	8.5	4.5	13.1	5.66	5.38	2.87	8.20	64.0
Structures	2.7	2.2	3.1	11.3	0.44	0.36	0.51	1.88	17.0
Commercial and health care	0.5	1.7	-1.6	4.6	0.03	0.11	-0.10	0.29	6.2
Manufacturing	-2.9	-6.7	15.5	28.9	-0.03	-0.07	0.16	0.30	1.2
Power and communication	-22.8	-14.5	-1.9	24.2	-0.51	-0.28	-0.03	0.40	1.8
Mining exploration, shafts, and wells	40.9	17.7	16.4	7.2	1.21	0.64	0.67	0.35	4.9
Other structures ¹	-8.2	-0.9	-5.8	19.0	-0.26	-0.03	-0.17	0.53	3.0
Equipment and software	10.9	10.6	5.0	13.8	5.22	5.02	2.36	6.33	47.0
Information processing equipment and software	14.5	11.1	8.4	18.0	3.31	2.57	1.90	3.98	23.1
Computers and peripheral equipment	31.7	13.9	39.3	15.8	1.46	0.68	1.68	0.76	4.9
Software ²	20.1	9.0	6.0	6.1	1.80	0.86	0.56	0.58	9.3
Other ³	0.5	11.8	-3.8	33.5	0.05	1.03	-0.34	2.64	8.9
Industrial equipment	-18.9	16.7	13.5	-3.3	-1.62	1.21	0.98	-0.25	7.5
Transportation equipment	27.4	13.9	-12.7	30.7	2.07	1.13	-1.10	2.26	8.3
Other equipment ⁴	18.5	1.1	7.2	4.0	1.46	0.10	0.58	0.33	8.1
Residential	10.8	7.3	2.8	3.1	3.88	2.66	1.03	1.14	36.0
Structures	11.0	7.4	2.7	2.9	3.88	2.65	0.99	1.09	35.6
Permanent site	3.8	7.2	7.6	6.0	0.87	1.60	1.68	1.36	22.7
Single family	3.6	7.1	7.3	3.9	0.75	1.44	1.44	0.81	20.3
Multifamily	5.1	7.5	10.8	25.8	0.12	0.17	0.23	0.55	2.4
Other structures ⁵	23.9	7.7	-5.0	-2.1	3.01	1.05	-0.69	-0.27	13.0
Equipment	1.2	2.0	9.9	12.6	0.01	0.01	0.04	0.05	0.4

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.

2. Excludes software "embedded," or bundled, in computers and other equipment.

3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.

5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

Related Indicators

Profit growth increased 23.8 percent in the first quarter over the same quarter last year. In 2005, the average quarterly growth of undistributed profits was 13.0 percent in 2005. In the first quarter, undistributed profits grew 15.2 percent.

The level of first-quarter net cash flow of \$1,452.6 billion exceeded the level of nominal nonresidential fixed investment for the first time since the third quarter of 2004.

Increases in short-term rates and inflationary expectations have had some impact on longer term yields over the first quarter; however at the end of the first quarter, Moody's AAA corporate bond yield was just 16 basis points higher than at the end of the fourth quarter. It was still below the yield at the end of the first quarter of 2005.

Private nonresidential investment increased 13.1 percent after increasing 4.5 percent. It contributed 8.20 percentage points to real private fixed investment growth. The growth reflected step-ups in equipment and software investment and in structures investment.

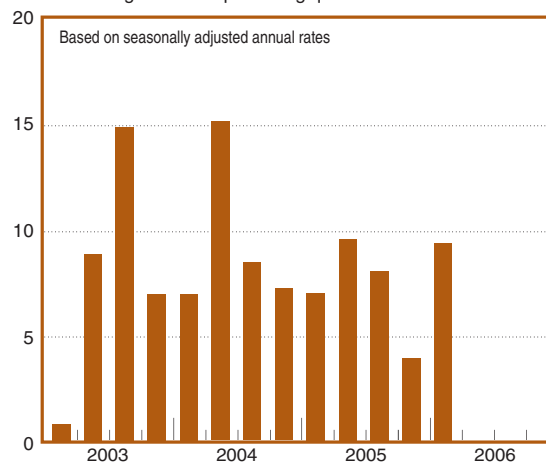
Investment in nonresidential structures surged, increasing 11.3 percent and contributing 1.88 percentage points to real fixed investment growth. The growth reflected upturns in "other" structures, in power and communication, and in "commercial and health care" and an acceleration in manufacturing.

Equipment and software investment increased 13.8 percent and contributed 6.33 percentage points to real investment growth. Transportation equipment rebounded. "Other" information processing equipment, largely telecommunications gear, turned up.

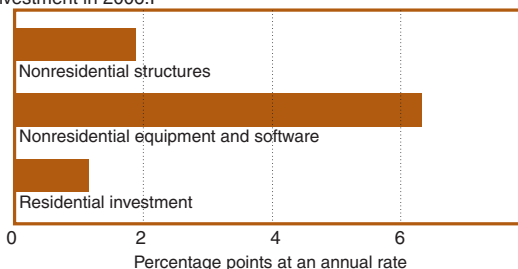
Residential investment increased 3.1 percent and contributed 1.14 percentage points to real fixed investment growth. An acceleration in multifamily structures partly offset a deceleration in single-family structures. Residential equipment investment accelerated for the third consecutive quarter.

Chart 3. Real Private Fixed Investment

Percent change from the preceding quarter



Contributions to the 9.3 percent increase in real private fixed investment in 2006:1



U.S. Bureau of Economic Analysis

Inventory Investment

Table 5. Real Change in Private Inventories by Industry

[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter				
	2005				2006	2005			
	I	II	III	IV	I	II	III	IV	I
Change in private inventories ...	58.2	-1.7	-13.3	37.9	32.3	-59.9	-11.6	51.2	-5.6
Farm	-2.3	-4.2	-4.5	-3.7	-4.5	-1.9	-0.3	0.8	-0.8
Mining, utilities, and construction	2.0	5.0	-3.8	2.0	4.0	3.0	-8.8	5.8	2.0
Manufacturing	25.1	-8.4	-2.5	0.6	7.8	-33.5	5.9	3.1	7.2
Durable-goods industries	18.2	-2.9	7.4	-1.5	-0.6	-21.1	10.3	-8.9	0.9
Nondurable-goods industries	7.1	-5.2	-8.7	1.8	7.6	-12.3	-3.5	10.5	5.8
Wholesale trade	23.3	16.2	10.8	10.8	10.2	-7.1	-5.4	0.0	-0.6
Durable-goods industries	15.2	13.5	9.4	14.4	3.2	-1.7	-4.1	5.0	-11.2
Nondurable-goods industries	8.1	3.0	1.7	-2.5	6.6	-5.1	-1.3	-4.2	9.1
Retail trade	7.0	-13.7	-13.4	26.7	9.8	-20.7	0.3	40.1	-16.9
Motor vehicle and parts dealers	-4.5	-24.4	-15.2	20.1	0.0	-19.9	9.2	35.3	-20.1
Food and beverage stores	-0.4	0.4	-1.6	1.4	1.1	0.8	-2.0	3.0	-0.3
General merchandise stores	5.4	0.9	3.5	1.3	-3.2	-4.5	2.6	-2.2	-4.5
Other retail stores	6.1	7.9	-0.9	5.0	11.5	1.8	-8.8	5.9	6.5
Other industries	3.4	3.0	1.2	4.3	5.5	-0.4	-1.8	3.1	1.2
Residual ¹	-0.1	1.3	-1.8	-4.7	1.1	1.4	-3.1	-2.9	5.8
Addenda: Ratios of private inventories to final sales of domestic business:									
Private inventories to final sales	2.47	2.42	2.39	2.40	2.38	.....	.....	.....	.....
Nonfarm inventories to final sales	2.27	2.23	2.20	2.22	2.20	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures	3.62	3.52	3.47	3.51	3.46	.....	.....	.....	.....

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.

NOTE: Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

Inventory investment decreased \$5.6 billion, subtracting 0.14 percentage point from real GDP growth after adding 1.89 percentage points. The decrease reflected declines in retail trade and wholesale trade. Manufacturing and "other" industries increased.

Manufacturing inventory investment increased \$7.2 billion. Inventory investment by nondurable-goods manufacturers increased \$5.8 billion.

Inventory investment in wholesale trade inventories declined slightly, reflecting a decrease in inventory investment by durable-goods wholesalers. Inventory investment by nondurable-goods wholesalers increased.

Reductions in inventory investment were widespread among retailers. The largest reductions were by retail automotive dealers. General merchandise stores inventory investment decreased.

Inventory Investment

The real change in private inventories, often called real private inventory investment, represents the change in the physical stock of goods held by businesses. It includes finished goods, goods at various stages of production, and raw materials.

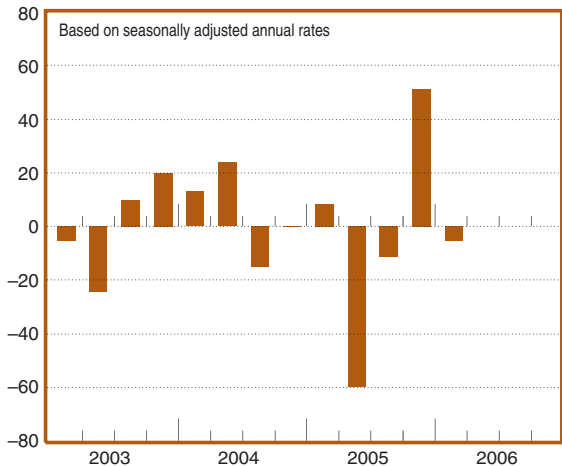
The change in private inventories is a key component of gross domestic product (GDP), which aims to measure output derived from current production. To include the value of currently produced goods that are not yet sold and to exclude the value of goods produced in previous periods, change in private inventories must be included in the GDP calculation.

Thus, GDP can also be seen as the sum of final sales of domestic product and the change in private inventories (table 2).

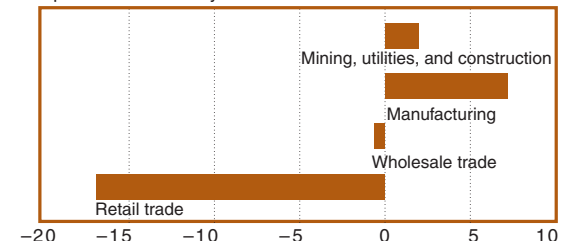
For most industries, the estimates of change in private inventories are prepared by revaluing book-value estimates of inventories from the Census Bureau to a replacement-cost basis and calculating the change over a quarter or year. BEA does not always have complete data for every industry.

Chart 4. Real Private Inventory Investment

Billions of chained (2000) dollars



Composition of inventory investment in 2006:1



U.S. Bureau of Economic Analysis

Exports and Imports

Table 6. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)
	2005			2006	2005			2006	
	II	III	IV	I	II	III	IV	I	
Exports of goods and services	10.7	2.5	5.1	14.7	10.7	2.5	5.1	14.7	100.0
Exports of goods ¹	16.0	3.2	8.0	20.8	10.84	2.20	5.49	14.27	70.9
Foods, feeds, and beverages	32.0	-18.3	1.4	26.0	1.36	-0.95	0.06	1.11	4.5
Industrial supplies and materials	15.9	-4.2	-14.0	30.0	2.72	-0.76	-2.61	4.89	17.8
Capital goods, except automotive	24.2	3.5	23.2	18.2	6.27	0.96	5.94	5.10	28.6
Automotive vehicles, engines, and parts	-4.5	20.4	26.2	6.4	-0.33	1.38	1.81	0.51	7.7
Consumer goods, except automotive	3.0	7.1	12.3	19.8	0.27	0.61	1.05	1.74	9.0
Other	17.3	32.2	-19.9	29.3	0.55	0.96	-0.76	0.92	3.4
Exports of services ¹	-0.4	1.0	-1.4	1.5	-0.12	0.29	-0.43	0.47	29.1
Imports of goods and services	-0.3	2.4	12.1	12.80	-0.30	2.40	12.10	12.80	100.0
Imports of goods ¹	-1.1	3.5	13.5	13.9	-0.96	2.89	11.30	11.70	84.5
Foods, feeds, and beverages	-0.1	15.2	1.2	21.8	0.00	0.48	0.04	0.71	3.4
Industrial supplies and materials, except petroleum and products	-5.6	-4.0	19.9	13.0	-0.74	-0.51	2.46	1.67	13.3
Petroleum and products	-24.5	-3.1	42.5	-10.0	-3.15	-0.39	5.02	-1.43	13.1
Capital goods, except automotive	24.8	4.4	7.9	15.8	4.20	0.82	1.48	2.86	18.5
Automotive vehicles, engines, and parts	-1.1	17.9	18.8	9.7	-0.13	1.95	2.14	1.17	11.8
Consumer goods, except automotive	0.0	-3.4	10.0	17.9	0.00	-0.71	1.96	3.43	19.7
Other	-22.1	31.8	-34.7	103.5	-1.14	1.24	-1.80	3.28	4.7
Imports of services ¹	4.4	-3.2	4.8	6.9	0.70	-0.52	0.78	1.10	15.5
Addenda:									
Exports of agricultural goods ²	28.6	-7.3	-10.0	35.5	.....	.....	.....	.....	5.0
Exports of nonagricultural goods	15.1	4.1	9.5	19.8	.....	.....	.....	.....	65.9
Imports of nonpetroleum goods	3.1	4.7	8.7	19.1	.....	.....	.....	.....	71.4

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

NOTE: Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

Real exports growth accelerated to 14.7 percent, mainly reflecting an acceleration in goods exports.

Real exports of goods surged, increasing 20.8 percent. Exports of industrial supplies and materials turned up and contributed 4.89 percentage points to export growth. Exports of nonautomotive capital goods decelerated, despite a step-up in exports of civilian aircraft, engines, and parts. Exports of "automotive vehicles, engines, and parts" decelerated.

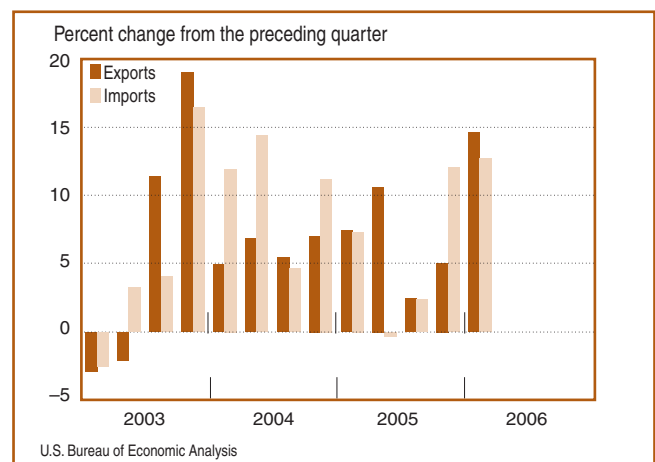
Real exports of services increased 1.5 percent after declining 1.4 percent. Other transportation services and travel turned up. Transfers under U.S. military agency sales contracts declined but less than in the fourth quarter. "Other" private services turned down.

Real imports increased 12.8 percent, compared with 12.1 percent. The increase reflected accelerations in imports of both goods and services (chart 5).

A large rebound in "other" goods imports and an acceleration in nonautomotive consumer durable-goods imports were the largest contributors to the acceleration in imports. Imports of petroleum and products turned down, and imports of nonpetroleum industrial supplies and materials decelerated.

Real imports of services accelerated, reflecting upturns in royalties and license fees.

Chart 5. Real Exports and Imports of Goods and Services



Government Spending

Table 7. Real Government Consumption Expenditures and Gross Investment (CEGI)

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2005			2006	2005			2006	
	II	III	IV	I	II	III	IV	I	
Government consumption expenditures and gross investment	2.5	2.9	-0.8	4.3	2.5	2.9	-0.8	4.3	100.0
Consumption expenditures	0.2	4.0	-1.6	4.8	0.17	3.25	-1.36	3.95	82.9
Gross investment	14.6	-2.3	3.4	2.0	2.33	-0.40	0.57	0.35	17.1
Federal	2.4	7.4	-2.6	10.5	0.88	2.71	-0.95	3.76	37.4
National defense	3.7	10.0	-8.9	9.6	0.91	2.42	-2.31	2.29	24.7
Consumption expenditures	1.0	9.1	-11.2	10.0	0.22	1.94	-2.57	2.08	21.6
Gross investment	26.2	16.7	8.9	6.7	0.69	0.48	0.26	0.21	3.1
Nondefense	-0.2	2.4	11.7	12.2	-0.03	0.29	1.36	1.48	12.7
Consumption expenditures	-4.1	3.8	7.1	11.7	-0.46	0.40	0.73	1.23	11.0
Gross investment	32.0	-6.6	48.6	15.6	0.43	-0.11	0.63	0.25	1.7
State and local	2.6	0.2	0.2	0.8	1.62	0.15	0.15	0.54	62.6
Consumption expenditures	0.8	1.8	0.9	1.3	0.41	0.91	0.48	0.64	50.3
Gross investment	10.1	-6.0	-2.6	-0.8	1.21	-0.76	-0.32	-0.10	12.3

NOTE: Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.

Real government spending turned up, increasing 4.3 percent and contributing 0.82 percentage point to real GDP growth. The upturn primarily reflected an upturn in Federal defense spending.

Federal Government defense spending turned up and was the largest contributor to the growth in government spending.

State and local government spending accelerated slightly. Growth in consumption expenditures accelerated. The reduction in gross investment was smaller than in the fourth quarter and reflected a reduction in structures investment.

Government Spending

“Government consumption expenditures and gross investment,” or “government spending,” consists of two main components: (1) Consumption expenditures by Federal and by state and local governments and (2) gross investment by government and government-owned enterprises.

Government consumption is measured as the gross output of government less sales to other sectors and own-account investment.¹ Gross output of government is measured as spending for labor and capital services, for intermediate goods (durable and nondurable), and for services.²

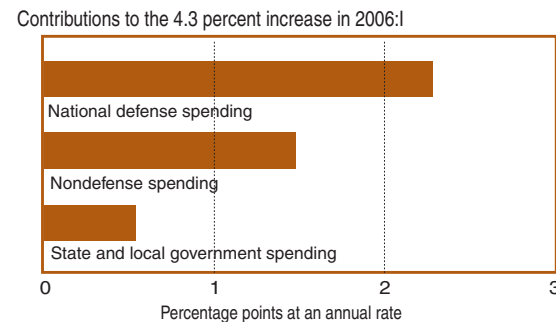
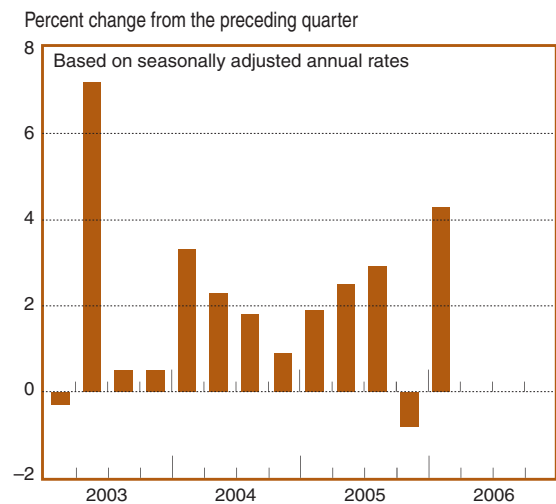
Gross investment consists of the following components: (1) Purchases of new structures (such as highways and dams) and equipment and software by government and government-owned enterprises, (2) net purchases of used structures and equipment, and (3) own-account production of structures and software.

Government consumption and gross investment excludes current transactions of government-owned enterprises, current transfer payments, interest payments, subsidies, and transactions in financial assets and nonproduced assets, such as land.

1. Own-account investment is the production of structures and software by general government employees for use by general government.

2. Capital services (depreciation) is also known as consumption of fixed capital and represents a partial measure of the services provided by government-owned fixed capital in the current period.

Chart 6. Real Government Consumption Expenditures and Gross Investment



U.S. Bureau of Economic Analysis

Prices

Table 8. Prices for Gross Domestic Purchases

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2005			2006	2005			2006
	II	III	IV	I	II	III	IV	I
Gross domestic purchases	3.3	4.2	3.7	2.8	3.3	4.2	3.7	2.8
Personal consumption expenditures	3.3	3.7	2.9	2.0	2.19	2.47	1.90	1.30
Durable goods	-0.5	-3.0	-0.8	-0.8	-0.04	-0.24	-0.06	-0.06
Nondurable goods	5.7	7.9	0.8	1.1	1.09	1.51	0.16	0.21
Services	2.9	3.1	4.6	2.9	1.14	1.20	1.79	1.14
Gross private domestic investment	2.7	3.7	5.2	3.9	0.44	0.59	0.83	0.64
Fixed investment	2.7	4.0	5.4	4.2	0.43	0.63	0.86	0.67
Nonresidential	1.9	2.5	3.8	3.7	0.19	0.26	0.38	0.38
Structures	9.9	16.5	20.3	14.2	0.24	0.39	0.49	0.36
Equipment and software	-0.7	-1.8	-1.3	0.3	-0.05	-0.13	-0.10	0.02
Residential	4.3	6.5	8.3	4.9	0.24	0.37	0.47	0.28
Change in private inventories .....	.....	.....	.....	.....	0.01	-0.04	-0.02	-0.03
Government consumption expenditures and gross investment	3.7	6.7	5.4	4.8	0.66	1.19	0.96	0.84
Federal	2.1	3.0	0.9	6.2	0.14	0.20	0.06	0.40
National defense	1.4	3.5	0.9	5.6	0.06	0.16	0.04	0.24
Nondefense	3.6	2.1	0.9	7.3	0.08	0.05	0.02	0.16
State and local	4.7	9.0	8.2	3.9	0.52	0.99	0.90	0.44
Addenda:								
Gross domestic purchases:								
Food	3.5	1.2	2.6	2.5	0.32	0.11	0.25	0.24
Energy goods and services	28.1	50.6	14.8	-3.0	1.15	2.00	0.72	-0.15
Excluding food and energy	2.1	2.5	3.2	3.2	1.81	2.14	2.73	2.69
Personal consumption expenditures:								
Food	3.5	1.3	2.4	2.7	.....	.....	.....	.....
Energy goods and services	28.6	50.0	10.3	-0.2	.....	.....	.....	.....
Excluding food and energy	1.7	1.4	2.4	2.0	.....	.....	.....	.....
"Market-based" PCE	3.4	3.9	2.6	1.7	.....	.....	.....	.....
Excluding food and energy	1.5	1.1	1.9	1.6	.....	.....	.....	.....
Gross domestic product	2.6	3.3	3.5	3.3	.....	.....	.....	.....

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures (PCE) for food and energy goods and services and for PCE excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

Inflation, as measured by the price index for gross domestic purchases, decelerated, increasing 2.8 percent, following an increase of 3.7 percent.

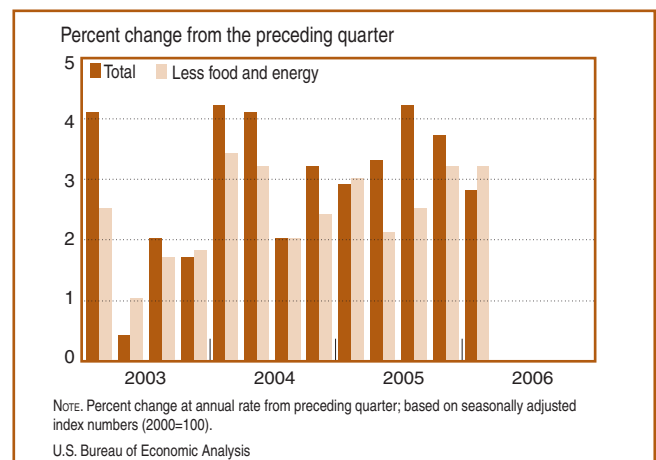
Consumer prices decelerated, increasing 2.0 percent after increasing 2.9 percent. The smaller increase primarily reflected decelerations in prices paid for household electricity and natural gas services and for medical care services.

Prices of private fixed investment increased 4.2 percent after increasing 5.4 percent. The deceleration was due to decelerations in prices paid for residential fixed investment and for nonresidential structures.

Prices paid by government decelerated somewhat, increasing 4.8 percent after increasing 5.4 percent. A deceleration in prices paid by state and local governments was muted by accelerations in prices paid by the Federal Government for defense and non-defense goods and services that mainly resulted from the pay raise.

The prices paid by consumers for energy goods and services turned down, decreasing 0.2 percent after increasing 10.3 percent. The price index for consumer purchases excluding food and energy increased 2.0 percent after increasing 2.4 percent. The market-based PCE price index decelerated also, increasing 1.7 percent after increasing 2.6 percent. Excluding food and energy, the market-based PCE price index decelerated from 1.9 percent to 1.6 percent.

Chart 7. Gross Domestic Purchases Prices



Revisions

Table 9. Preliminary and Advance Estimates for the First Quarter of 2006

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
Gross domestic product	5.3	4.8	0.5	5.3	4.8	0.5
Personal consumption expenditures	5.2	5.5	-0.3	3.63	3.81	-0.18
Durable goods	20.5	20.6	-0.1	1.51	1.52	-0.01
Nondurable goods	5.7	5.4	0.3	1.18	1.11	0.07
Services	2.2	2.8	-0.6	0.94	1.18	-0.24
Gross private domestic investment	8.3	6.5	1.8	1.41	1.11	0.30
Fixed investment	9.3	9.9	-0.6	1.56	1.64	-0.08
Nonresidential	13.1	14.3	-1.2	1.37	1.48	-0.11
Structures	11.3	8.6	2.7	0.31	0.24	0.07
Equipment and software	13.8	16.4	-2.6	1.05	1.24	-0.19
Residential	3.1	2.6	0.5	0.19	0.16	0.03
Change in private inventories				-0.14	-0.52	0.38
Net exports of goods and services				-0.55	-0.84	0.29
Exports	14.7	12.1	2.6	1.47	1.21	0.26
Goods	20.8	17.8	3.0	1.42	1.23	0.19
Services	1.5	-0.5	2.0	0.05	-0.02	0.07
Imports	12.8	13.0	-0.2	-2.02	-2.05	0.03
Goods	13.9	14.2	-0.3	-1.85	-1.88	0.03
Services	6.9	6.7	0.2	-0.17	-0.17	0.00
Government consumption expenditures and gross investment	4.3	3.9	0.4	0.82	0.74	0.08
Federal	10.5	10.8	-0.3	0.71	0.73	-0.02
National defense	9.6	10.3	-0.7	0.43	0.47	-0.04
Nondefense	12.2	11.7	0.5	0.28	0.27	0.01
State and local	0.8	0.0	0.8	0.10	0.00	0.10
Addenda:						
Final sales of domestic product	5.5	5.4	0.1	5.45	5.34	0.11
Gross domestic purchases price index	2.8	2.7	0.1			
GDP price index	3.3	3.3	0.0			

The 5.3-percent preliminary estimate of real GDP growth is 0.5 percentage point more than the advance estimate. For the period 1978–2004, the revisions, without regard to sign, averaged 0.5 percentage point from the advance to the preliminary estimates.

PCE services was revised down, as electricity and gas services was revised down, reflecting newly available electricity and natural gas usage data from the Energy Information Administration for February.

Equipment and software investment was revised down, reflecting downward revisions to industrial equipment and transportation equipment. These revisions stemmed from the incorporation of the benchmarked Manufacturers' Shipments, Inventories, and Orders survey and newly available light-truck registration data.

Inventory investment was revised up, reflected an upward revision to retail trade inventories that was partly offset by a downward revision to wholesale trade inventories, based on newly available Census inventory data for March.

Exports were revised up. The largest contributor to the upward revision was nonpetroleum industrial supplies and materials, reflecting newly available Census goods data for March.

Source Data for Preliminary Estimates

Personal consumption expenditures: Retail sales for February and March (revised). Motor vehicle registrations for January and February (revised) and for March (new). Retail electricity and natural gas sales for February (new).

Nonresidential fixed investment: Construction put-in-place data for January and February (revised) and for March (new). Manufacturers' shipments of machinery and equipment for October through March (revised). Exports and imports for February (revised) and for March (new).

Residential investment: Construction put-in-place data for January and February (revised) and for March (new).

Change in private inventories: Manufacturers' inventories for December through March (revised) and trade inventories for February (revised) and for March (new).

Exports and imports of goods and services: International transactions accounts for January and February (revised) and for March (new).

Government consumption expenditures and gross investment: State and local government construction put-in-place data for January and February (revised) and for March (new).

Personal Income for the Fourth Quarter

With the preliminary estimates of GDP, BEA also releases revised estimates of various income-related series for the previous quarter. This revision reflects the incorporation of newly available, fourth-quarter tabulations from the Bureau of Labor Statistics Quarterly Census of Employment and Wages.

Wages and salaries increased \$22.3 billion in the fourth quarter, a downward revision of \$45.5 billion. Personal current taxes increased \$12.7 billion, a downward revision of \$7.9 billion. Contributions for government social insurance—a subtraction in calculating personal income—increased \$2.0 billion, a downward revision of \$6.2 billion. The revision also shows

- Personal income increased \$190.7 billion, a downward revision of \$42.6 billion.
- Disposable personal income increased \$178.0 billion, a downward revision of \$34.7 billion.
- Personal saving increased \$93.4 billion, a downward revision of \$34.7 billion.
- The personal saving rate was -0.5 percent, a downward revision of 0.3 percentage point.

Corporate Profits

Table 10. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)				Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter						
	2006		2005		2006		2005		2006
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits	1,595.4	59.3	-54.4	185.8	116.5	4.6	-4.0	14.4	7.9
Domestic industries.....	1,377.9	55.5	-80.4	200.4	107.6	5.1	-7.0	18.7	8.5
Financial	450.8	-26.9	-71.9	104.9	67.1	-7.1	-20.5	37.6	17.5
Nonfinancial.....	927.1	82.5	-8.5	95.5	40.5	11.5	-1.1	12.1	4.6
Rest of the world	217.5	3.7	25.9	-14.5	8.9	1.9	13.1	-6.5	4.3
Receipts from the rest of the world	368.6	14.7	10.1	18.3	12.0	4.7	3.1	5.4	3.4
Less: Payments to the rest of the world	151.1	10.9	-15.9	32.9	3.1	9.1	-12.1	28.5	2.1
Less: Taxes on corporate income.....	440.3	9.9	-12.2	56.8	23.2	2.7	-3.3	15.8	5.6
Equals: Profits after tax	1,155.1	49.4	-42.2	129.0	93.3	5.3	-4.3	13.8	8.8
Net dividends	548.8	11.4	13.8	15.3	13.4	2.3	2.7	2.9	2.5
Undistributed profits from current production	606.3	38.0	-56.1	113.8	79.9	8.8	-12.0	27.6	15.2
Net cash flow	1,452.6	41.7	44.0	43.1	84.6	3.4	3.4	3.3	6.2
Industry profits:									
Profits with IVA	1,639.2	54.1	-28.2	164.6	109.5	4.0	-2.0	12.1	7.2
Domestic industries.....	1,421.7	50.4	-54.1	179.1	100.6	4.4	-4.5	15.7	7.6
Financial	449.2	-27.7	-70.8	104.0	66.5	-7.4	-20.3	37.3	17.4
Nonfinancial.....	972.5	78.1	16.7	75.0	34.2	10.2	2.0	8.7	3.6
Rest of the world	217.5	3.7	25.9	-14.5	8.9	1.9	13.1	-6.5	4.3
Addenda:									
Profits before tax (without IVA and CCAdj).....	1,659.9	33.9	-19.6	177.5	89.8	2.5	-1.4	12.7	5.7
Profits after tax (without IVA and CCAdj).....	1,219.7	24.0	-7.4	120.7	66.7	2.4	-0.7	11.7	5.8
IVA.....	-20.8	20.2	-8.6	-12.9	19.6	.....	.....	.....	.....
CCAdj.....	-43.8	5.2	-26.3	21.4	6.9	.....	.....	.....	.....

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

Corporate profits from current production increased \$116.5 billion, 7.9 percent at a quarterly rate, after increasing \$185.8 billion, or 14.4 percent. (Fourth-quarter profits were reduced \$22.9 billion because of Hurricane Wilma). On a year-over-year basis, profits increased 23.8 percent.

Profits of financial corporations increased 17.5 percent after increasing 37.6 percent.

Profits of nonfinancial corporations increased 4.6 percent, following an increase of 12.1 percent.

Taxes on corporate income increased 5.6 percent after increasing 15.8 percent.

After-tax profits increased 8.8 percent after an increase of 13.8 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased 15.2 percent, following an increase of 27.6 percent.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, accelerated, increasing \$84.6 billion, or 6.2 percent, after increasing \$43.1 billion, or 3.3 percent.

Measuring Corporate Profits

BEA's measure of corporate profits aims to capture the income earned by corporations from current production in a manner that is consistent with the national income and product accounts (NIPAs). The measure is defined as receipts arising from current production less associated expenses. Receipts exclude income in the form of dividends and capital gains, and expenses exclude bad debts, natural resource depletion, and capital losses.

BEA derives its profits measure in three steps. First, BEA measures profits before taxes to reflect corporate income regardless of any redistributions of income through taxes. This measure is partly based on tax return information from the Internal Revenue Service. BEA uses tax accounting measures for two reasons: They are based on well-specified accounting definitions, and they cover all incorporated businesses—publicly traded and privately held—in all industries. BEA also uses other sources of

information to estimate pretax profits, including information from the Census Bureau.

Second, to remove the effects of price changes on inventories valued at historical cost, and of tax accounting for inventory withdrawals, BEA adds an inventory valuation adjustment (IVA) that values inventories at current cost.

Third, to measure depreciation on a consistent accounting basis valued at current cost, BEA adds a capital consumption adjustment (CCAdj). CCAdj is the difference between consumption of fixed capital (the decline in value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax return depreciation).

For more information, see "Corporate Profits: Profits Before Tax, Profits Tax Liability, and Dividends: Methodology Paper," September 2002, on BEA's Web site at www.bea.gov/bea/mp_national.htm.